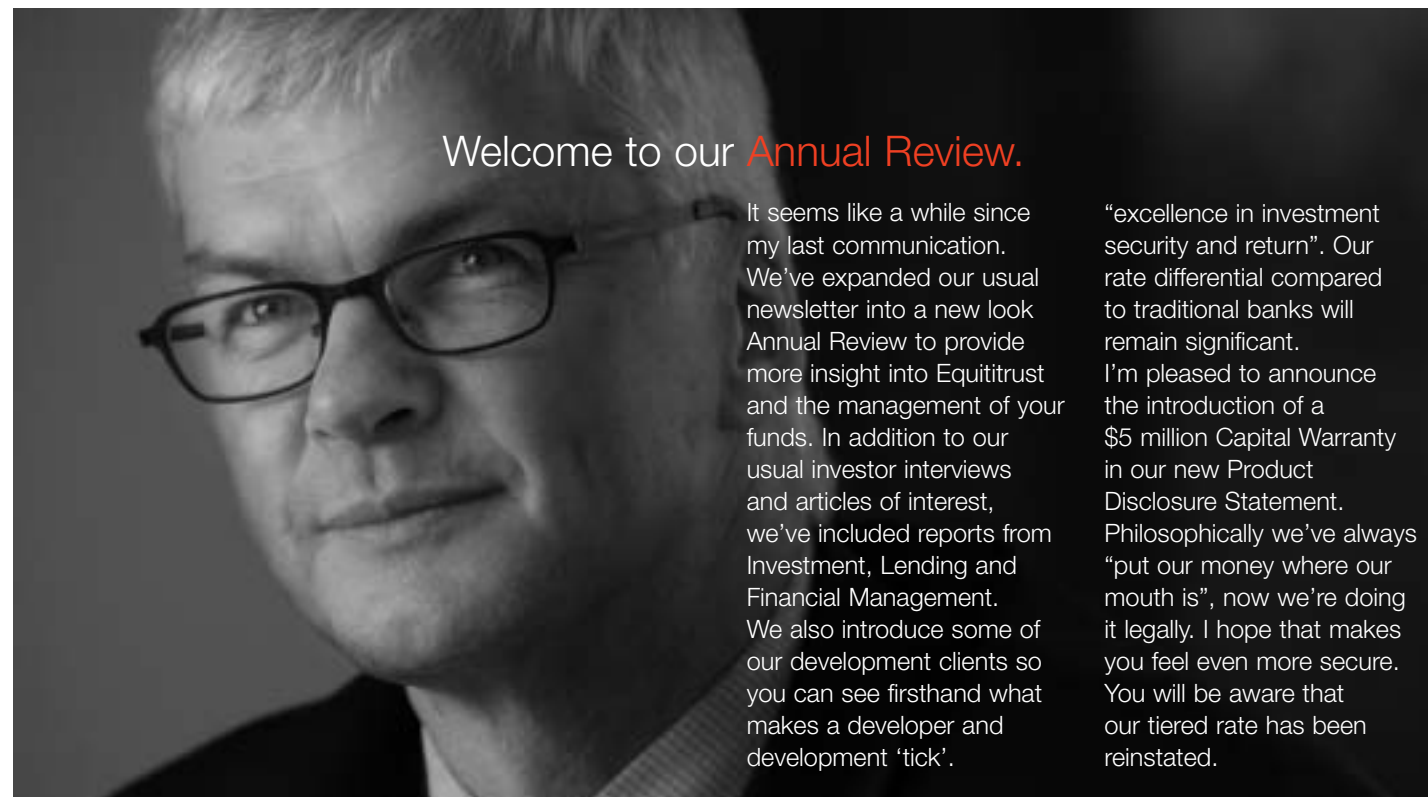


Annual Review 03/04

EQUITRUST
Merchant Bank

Who we are?

**We are a responsibly aware company,
Always delivering on its word,
Nurturing its people,
And building enduring relationship.
We provide excellence
In investment security and return
And creative finance solutions,
Through superior property knowledge.**



Welcome to our **Annual Review.**

It seems like a while since my last communication. We've expanded our usual newsletter into a new look Annual Review to provide more insight into Equititrust and the management of your funds. In addition to our usual investor interviews and articles of interest, we've included reports from Investment, Lending and Financial Management. We also introduce some of our development clients so you can see firsthand what makes a developer and development 'tick'.

"excellence in investment security and return". Our rate differential compared to traditional banks will remain significant. I'm pleased to announce the introduction of a \$5 million Capital Warranty in our new Product Disclosure Statement. Philosophically we've always "put our money where our mouth is", now we're doing it legally. I hope that makes you feel even more secure. You will be aware that our tiered rate has been reinstated.

Management Team



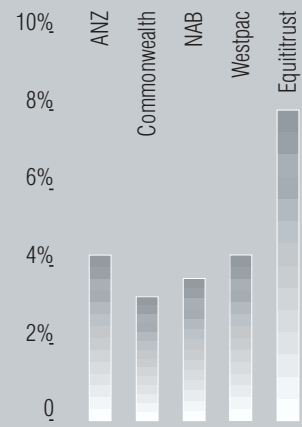
CEO Comment Mark McIvor

It certainly has been a busy year, our strong property market and solid borrower demand characterised last financial year.

Comprising our executive directors and division leaders, our Management Team provides a firm rudder for our Company's direction. Long term stalwart Ross Janetzki (10 years) now heads our Investment team. Our new financial controller, Sidney Super joined us in April. Sid's significant accounting experience and obliging demeanour are a great support. Sid and Ross join Tim James (Lending Manager) and directors Mark and Wayne McIvor in forming a Management team that reflects experience and diversity of skill.

We've also enjoyed excellent investor growth, the keynote being 'sustainable growth'. We're very wary of rapid funds growth as excess liquidity can place pressure on the investment rate and may impact lending decisions. We continue to hone our expertise, particularly in the area of development lending, which is so vital to the successful management of your funds. Whilst the interest rate environment is stable, rises seem inevitable. Upward movements in the cash rate may not affect our investment rate. As the fund grows, appropriate borrower demand and liquidity will be significant determinants to any rate rise. We remain vigilant in our objective annunciated in our new vision statement of providing

ASIC misinterpreted the Corporation's Law in obliging us to offer a uniform rate. Whilst this may have been met with disappointment by some, it is crucial to our formula for raising funds at an appropriate cost and in providing a return commensurate with investment size. On a personal note I have some significant news... I've recently been married. I'm sure many of my long standing investors will be saying "About time!"... It's like lending though: it's an important decision and you should never be in a hurry. I thank my management team and our fantastic personnel for their invaluable efforts over the year, and I trust you'll enjoy our Annual Review.



*Based on a \$100,000 deposit with interest paid monthly.
Source: Infochoice 13/8/04

In terms of new investment, the 2003 financial year was our strongest year on record. We welcomed substantial numbers of new clients; our year closed with \$162 million under management. There were a number of reasons for this success - in addition to our no-loss record!

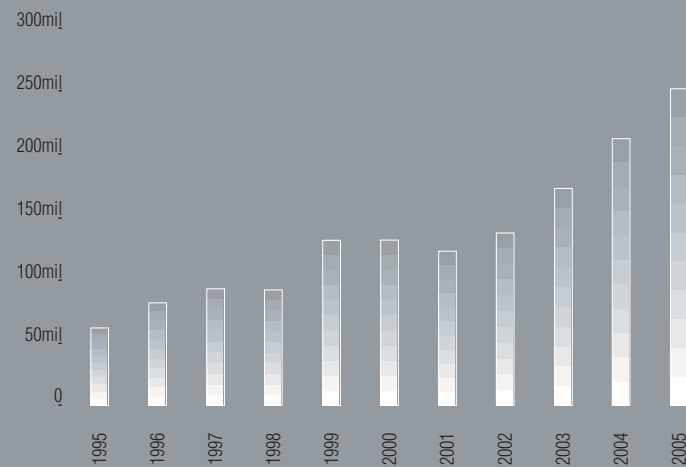
Poor returns from share-based managed funds has played a significant part. So too has the uplift in property prices, with many investors deciding to cash out and obtain a higher yield. The prevailing low interest rate environment has also prompted many to look for a secure alternative to bank term deposits. As the graph left indicates, the rate differential is substantial.

Investment Management Report



Ross Janetzki Investment Manager.

Despite the high growth of new client numbers, most investors have been with us more than two years. A quarter of our investors have been with us for over five years.



The above graph tracks historical and projected rates to 2005. At that time, we envisage \$250 million under management. Sustainable growth is key. While with expanded marketing we could grow our funds under management at a much faster rate, rapid growth places greater pressure on our lending team to source quality business. This mistake was made in the past by Estate Mortgage, Farrow Mortgage and infamous others - to the ultimate detriment of their investors. Growth beyond lending and management capacity is unhealthy.



Together with husband Ron, Valerie Taylor has been exploring the underwater world and filming dramatic encounters with marine life for over thirty years now. They have supplied footage to world-class film productions including the National Geographic SHARKS and Steven Spielberg's JAWS in addition to filming and producing a swag of other underwater adventures.

An Interview with Val Taylor

An awarded marine photographer, staunch conservationist, household name (and of course, Equititrust Investor) we had the pleasure of interviewing Valerie in March this year. We kicked off by asking her a few 'personal' questions.

Valerie, how did you meet your husband Ron?

Through the St George Spearfishing Club in 1960. We've now been married 41 years.

What is Ron's worst habit around the house?

He leaves his apple cores lying around.

Who has control of the remote?

I let Ron have it until 8:30; then it's mine!

What are you reading at the moment?

Oliver North's "Under Fire": it's about political scandal. I'd certainly recommend it.

Given Valerie's impressive list of achievements, daring adventures and multiple awards we were interested to know which experiences stood out for her personally.

What has been your greatest honour?

I think being knighted by Prince Bernard in Amsterdam for my work in conservation: I'm now a Knight of the Golden Arc. Being awarded the Senior Achiever of the Year at Admiralty House last year was also very special.

What was your most frightening underwater incident?

Getting sucked down a whirlpool in the Sape Strait, Indonesia. It was one of those situations: nothing can prepare you for it. I also got sucked up a blowhole in the Cocos Islands off Costa Rica.

If attacked by a shark, is it true you should try to poke them in the eyes?

I recommend punching them in the gills: it's worked for me a few times. To finish off we asked Valerie for a few words of wisdom and to share what the near future looks like for the Taylors.

What is your latest project?

Ron and I are heading off to New Guinea to shoot footage and some stills.

You seem very busy, would you like to spend more time at home?

Definitely. It seems the older Ron and I get the busier we get.

What advice would you give to someone who asked it?

If an opportunity presents: take it - don't make excuses for why you can't.

Why do you invest with Equititrust?

You're honest and you deliver - not like some big banks I've dealt with.

Our thanks to you Valerie for your time and support.

Our 2003 financial year showed strong growth in lending demand with new advances totalling \$153.3m. As we would expect, development lending comprised a substantial and crucial portion (65%) of borrower demand. The balance was made up of 'set & forget' (static loans), demand for which continues to be eroded by cheaper non-bank sources. Our development demand has no doubt been stimulated by strong market conditions. We think it also represents continued disenchantment with traditional banks and gradual extending of our reputation for creative financial solutions. Developments comprised mainly residential projects such as low-rise units, land subdivisions, housing and occasional commercial projects. The majority of developments readily met presale requirements.

In providing development finance we are most mindful of the following:

Type of end-product

We seek projects with ready salability. Specialised securities, such as motels, caravan parks and island resorts, can have narrow market appeal and therefore be problematic. For the same reason we avoid developments of a pioneering nature.

Feasibility

Surprisingly, we receive many applications for developments that aren't profitable. The borrower may have underestimated the likely construction period (and ensuing holding cost), the development cost, or overestimated the end values. If a project isn't viable for a borrower, his commitment may falter.

Developer's experience

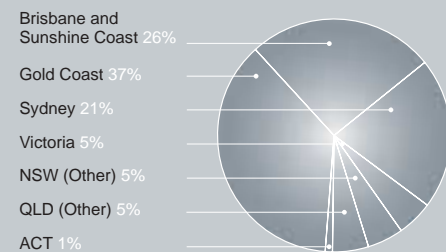
Many of our loans represent repeat business to established clients. However, as our lending reputation grows we are often approached by newcomers. The experience of these folk can vary widely. If a would-be borrower has a great project, but lacks a credible track record we don't dismiss the proposal necessarily. However in these instances, to give us greater



Lending Management Report

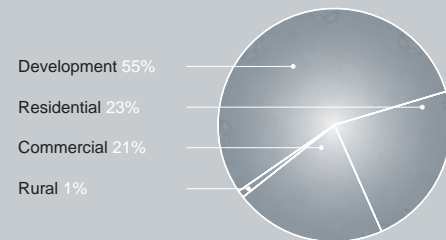


The Chevron Renaissance project (above) is our largest loan to date. The development concept, strong pre-leasing interest and low loan to value ratio were all factors that influenced our involvement.



2003 also saw a spreading of our lending risk further afield from Port Douglas in the North to Wollongong and further to the south. These loans have provided excellent lending opportunities. We successfully finalised a number of more notable projects, for example:

- "Vogue on Broadbeach" (see interview Mark Howard) prestigious beachfront residential apartments and adjacent houses.
- "The Outrigger" Port Douglas. A boutique apartment building comprising 22 apartments, 7 shops and refurbishment of the icon Courthouse hotel.
- "Chevron Renaissance" Surfers Paradise. We finalised our involvement with this landmark project which spanned several years. The loan originated with site acquisition, progressed to the shopping centre development and continued as a creative blend of institutional finance and Equititrust's assistance to evolve this transformative 'inner city' project.



We keep a watchful eye on our market which continues to surprise with new price levels and potential construction cost increases. Certainly the BIS Shrapnel forecasts support strong growth for South East Queensland, but we are adopting a cautious approach. It has not been unusual for us to disagree with the developer's estimated price realisation.

comfort, we may insist the borrower utilise our nominated project manager who is strictly accountable to us. Additionally, we would insist on a higher number of pre-sales than what we might seek from borrowers we know well. But given the current economic climate, we are requiring strong pre-sales from all borrowers in any case.

Internal Management

Tracking a project's milestones throughout its development is fundamental to ensuring the Fund's security. Each of our construction loans is carefully monitored in terms of its progress to ensure timely completion.

Cost management

In terms of construction, some developers are the builder; others outsource this function. In the latter case we insist on a fixed price and fixed time contract. A tripartite agreement is also required, which ensures the builder is accountable to us. Reference checks are required on all builders; a quantity surveyor confirms that:

- Construction cost is accurate
- Necessary approvals and insurances are in place
- Timely building progress and drawdown certification

Sufficient funds are always withheld to enable the project to be completed by an alternative builder should that be necessary. All valuers and quantity surveyors are required to hold adequate professional indemnity insurance.

Why development lending?

It is crucial for a number of reasons: Bigger loan amounts allowing greater usage of Fund money. Commercially minded borrowers are less likely to default. Not as rate sensitive as static loans allowing better Fund yield. With specialist development knowledge we can always provide a better service to borrowers than traditional banks.

Keeping apprised of the economy's direction is always in the minds of Equititrust Management. Information from BIS Shrapnel, a national forecaster with a 38 year history, provided our efforts a firm foundation. Their view could be summarised as follows:

Looking Ahead

- After weathering the effects of the drought, SARS and the conflict in Iraq, the Australian economy is poised for growth
- Inflationary pressures are easing; interest rates will remain low and supportive to growth until the economic upswing gains momentum
- The US and world economies are expected to improve; Asia should recover from SARS
- Low interest rates and stock deficiencies should drive another leg to a housing upswing from late 2004
- Improving external conditions and continued domestic growth will boost corporate profits, generating business investment and employment in turn
- This employment growth will create a skilled labour shortage, driving salary increases, thereby boosting the economy
- Interest rates may increase slightly during 2004, before rising sharply during 2005

In other words, BIS Shrapnel are far from being bearish. In contrast, the media seems insistent that our property market is a bubble waiting to burst. Home affordability is said to be at a 14 year low - and this with interest rates at 30 year lows. In the face of this, how can BIS Shrapnel's view be so opposed? Their answer is simple:

"Dwelling stock deficiencies in New South Wales and Queensland are forecast to rise substantially over the next three years. This will drive strong growth in Brisbane - which is forecast to rise by 36% over the three years to 2006 and Sydney, which is forecast to increase by 24%."

In relation to the Brisbane market, BIS Shrapnel said this:

"The turnaround in the stock deficiency has been driven by the increase in Brisbane's net interstate migration inflow from less than 20,000 over the five year period to 2000/01, to an estimated 33,000 in 2002/03. This had underpinned a 30% increase in Queensland's underlying demand, from 32,000 to 41,600 per year. Over the three year period from 2003 to 2006 Brisbane's median house price is forecast to rise by 36%, reflecting a real price growth of 24%."

But despite BIS Shrapnel's view, we are adopting a cautious approach. As alluded to in the lending management report, we are seeking higher levels of pre-sales than we have prior. And with the prospect of rising construction costs, we are including larger contingency reserves as part of our loan structures. As ever, we cast a critical eye over the markets in which we lend and use the most conservative valuers. In short, regardless of the health of our future economy, we're in for the long haul of giving investors the best returns with the highest safety.



Going Going Gong

As the more studious readers of our Product Disclosure Statement will note, Equititrust doesn't just lend in South East Queensland. Many good proposals find their way to us from interstate; a fifteen unit development in the heart of Wollongong was one of them. Director and Lending Manager, Wayne McIvor explains:



Wayne McIvor Director.

"The borrower was a new client introduced to us via a broker. The client had ten years development experience in the Wollongong region, concentrating on small, low rise, residential projects. The client had purchased the site on a long term contract to enable development approval to be gained prior to settlement."

Equititrust had not financed a development deal in Wollongong, and so extensive research on the area was undertaken.

"Our homework showed the site was well purchased. The market for the proposed product was firm and gaining momentum. The end-product was appropriate given the target market and priced below its immediate competition. Our feasibility showed the project's profitability was sound. The loan to value ratio was set at a maximum of 65%."

Development went to plan; sales were achieved at a rate of one per week. A thirty percent premium was achieved on sale prices of units that weren't sold pre-construction. In all, a happy result was achieved for all concerned.



Many of our borrowing clients are leading Gold Coast developers; one is Canadian-born Mark Howard. Moving here from Edmonton in 1985, Mark sought new horizons - the Coast's lifestyle and warmer weather also appealed. Prior to this, he'd completed a construction management degree in England. He began with Gordon Pacific in 1988 as Queensland Manager. As many investors will recall, this was the height of the real estate boom. During the recession that followed, Mark began making his own foray. "I was doing a bit of everything then - renovating, buying and selling, small-scale building. My turning point was in 1994. With a partner, I rezoned some land near Allamanda

affordable. Forget the idyllic dream - work out the highest and best use in the market today." Without limiting himself, Mark favours projects that are located centrally. "There's a Golden Triangle of sorts between Main Beach, Broadbeach and Sorrento." Mark's latest project is 'Vogue' at Hedges Avenue, Mermaid Beach. "There were four blocks, numerous people had tried to amalgamate it. It was a hard slog to get the land, the approvals, and move onto it. But most importantly we knew the buyers would be there for the right product." Looking ahead, Mark is optimistic yet wary. "South East Queensland would seem to be

An Interview with Mark Howard

Hospital and built forty units. In the years that followed, we were quite active in that area. "Since then, Mark projects have included:

- 'Raffles on Capri' (a 50 unit development on Isle of Capri)
- 'St Ives' (a 30 unit project at Benowa)
- 'Chiara Villas' (a luxury 10 unit project at Rose Bay, Sydney)
- 'Bauer Place' (a 17 unit complex in Southport)
- 'St Raphaels' (35 units at Chevron Island)
- 'Augusta Palms' (31 units at Chevron Island)
- 'Surf Parade Resort' (a 98 unit complex in Surfers Paradise)
- 'Grande Central' (36 units at Labrador)

When asked the key skills of development, Mark had this to say: "Identify the highest and best use of a given block then deliver end-product that's

strong for the right product - if it's well located, has good features, is well-designed, thought out and well-priced. If it's secondary and poorly conceived the market will treat you accordingly.

Finally, we asked Mark, "Why Equititrust?" "My previous business with Equititrust in the past. The lending team have a good knowledge of the industry which enables them to make decisions quickly with no bureaucracy."

We thank Mark for his time and wish him good luck for his future developments - after all, the chances are we'll be helping him!

Solmac fast-tracks at Varsity

Solmac Developments, veteran Equititrust borrowers with a long record of success, have made an enormous impact in Varsity Lakes, one of the Gold Coast's prodigious growth suburbs. Solmac's architecturally distinctive projects have added 90 units to the area with a further 230 underway.



Having financed some of their prior Varsity projects, we are now proudly assisting their "Market Square" development, an innovative blend of residential apartments and retail. Pre - sales have already topped 75%. With this level of early debt coverage, this is sure to be another winner for Solmac Developments and Equititrust alike. Looking ahead, company director Stephen Solomons, had this to say:

"We see the market as 'steady as she goes'. We don't expect the sort of price rises we've seen in the past couple of years, but things haven't dissipated. We also expect the Gold Coast to fare better than most other areas."

Steve Solomons and Duncan McInnes,
Joint Directors Solmac.

We welcome

Venita Rostas



With thirty-six new clients joining Equititrust on average each month, it was little wonder our Investment Team needed reinforcements! To this end - and with great pleasure - we welcome Venita Rostas as the newest of our Investment Managers. Formerly with Suncorp-Metway, Venita brings a wealth of investment knowledge to the Equititrust team and is excited about her new role. "In these low inflationary times, many people-particularly retirees - are looking for more than average returns. 'I enjoy helping people achieve a higher return.'" Prior to working at Suncorp, Venita completed a Bachelor of Business Degree at Griffith University. "I originally aspired to a treasury role in a commercial bank, but my time with Suncorp convinced me I wanted the personal aspect of a client relations role." A keen bowler and fledgling bridge player, Venita is relishing her sponsorship focus in her role: "I love getting out and meeting people and generally spreading the Equititrust word."

Arthur Taylor



Of the 80,000 or so people who move to Queensland each year, many are interstaters, but are growing number are South African. Not only does this influx increase demand for property (and help underpin property prices); many skilled workers enter the employment pool. In the case of our newest Lending Manager Arthur Taylor, this has inured to Equititrust's benefit. A qualified quantity surveyor, with sixteen years banking experience, Arthur was just the lending professional we were looking for. As with many of his compatriots, Arthur felt it was time to find a new country to call home. "There were two turning points. A young solicitor was hijacked in his home, viciously brutalised at gunpoint and robbed. Prior to this, I'd also been nearly carjacked. Driving home from the gym one night, I was relaxing, listening to music and didn't notice there'd been a car tailing me. When I arrived at the gated entry to my home, the car pulled up and men brandishing handguns leapt out to attack me. Instinctively, I threw the car in reverse, ducked down and accelerated out of there." After these two events - and despite his military training - Arthur felt it was time for a change. "There's a common thread among the South Africans over here; they can't reconcile living behind walls, having guard dogs and living in constant fear. It's hard to leave a country that represents your roots, but I felt for me it was time to go". Since beginning with Equititrust in April, Arthur has made a positive change. Says Lending Manager, Tim James, "His integration into the Credit Committee was fast. The systems we use are not unlike his previous experience; his knowledge of Excel and his attention to detail have been a huge contribution. His quantity surveying know-how also enables him to ask the right questions and talk with our consultants from a position of experience."

Financial Management Report

Strong performance was the hallmark of the 2003 financial year with solid growth in investment, lending and profitability.

As at 30 June 2003 our total funds under management comprised:

Income Fund	\$144,3million
<u>Sophisticated Investment</u>	<u>\$17,7million</u>
	<u>\$162,0million</u>

This represents a growth rate of 25.4 %, which we consider sustainable.



Sid Supers Financial Controller

Margins have been impacted by surplus liquidity of \$8 million and an artificial increase in the cost of funds as a consequence of ASIC obliging us to offer a uniform rate. The latter issue is now resolved with the reintroduction of our tiered rate. Surplus liquidity will always be a key focus as we balance our investment growth with appropriate borrower demand. Bank credit lines together with use of the company's equity will shield us from excess liquidity ensuring a stable investment return. Loan ratios have been maintained well within authorised limits and typically do not exceed our 70% "rule of thumb." Borrower performance for the year has been excellent with non-performing loans well within an acceptable range. Net assets of Equititrust Ltd as at 30 June 2003 stood at \$15 million, which at three times the statutory requirement gives the company a strong financial footing.

Equititrust continues to maintain strict systems control and embrace statutory compliance. We keep apprised of regulatory changes legislated by the Australian Accounting Standards Board, the Australian Securities and Investment Commission and the Australian Tax Office. In addition to regular audits by KPMG, our Compliance Officer also conducts internal audits. Additionally, all staff are trained in their respective areas of Compliance. As per our compliance requirements, Public indemnity insurance is always maintained at prescribed levels. Continual efforts in evolving our software allows us to maintain key management information in a timely manner. This provides immediate monthly Financial and Management Accounts, and permits close tracking of all loans.

Statement of financial performance

for the year ended 30 June 2003

	Note	2003 \$	2002 \$
Total revenue		8,349,902	3,999,565
Related income tax expense		5,857,303	1,810,973
Income tax (expense)/benefit relating to ordinary activities	5(a)	(1,782,383)	(525,524)
Net profit attributable to members of the parent entity		4,074,920	1,285,449

Statement of financial position

for the year ended 30 June 2003

	Note	2003 \$	2002 \$
Current assets			
Cash assets	7	1,561,298	1,332,999
Receivables	8	3,674,059	2,473,591
Other financial assets	9	7,193,259	5,759,577
Other	10	7,714	332
Total current assets		12,436,330	9,566,499
Non current assets			
Receivables	8	6,686,743	6,342,192
Other financial assets	9	49,245	174,245
Property, plant and equipment	11	134,739	136,824
Total non current assets		6,870,727	6,653,261
Total assets		19,307,057	16,219,760
Current liabilities			
Payables	12	1,668,416	2,853,439
Interest-bearing liabilities	13	1,587,500	1,587,500
Current tax liabilities		808,423	1,303,733
Provisions	14	127,048	80,489
Total current liabilities		4,191,387	5,825,161
Non current liabilities			
Provisions	14	52,716	74,294
Deferred tax liabilities	5(b)	667,729	-
Total non current liabilities		720,445	74,294
Total liabilities		4,911,832	5,899,455
Net assets		14,395,225	10,320,305
Equity			
Contributed equity	15	4,097,386	4,097,386
Retained profits	16	10,297,839	6,222,919
Total Equity		14,395,225	10,320,305

The above statement of financial performance is to be read in conjunction with the accompanying notes.

Statement of financial performance

for the year ended 30 June 2003

	2003 \$	2002 \$
Investment income		
Interest income	13,999,701	10,601,136
Distribution Received – Managed Fun	11,250	-
Total income	14,010,951	10,601,136
Total Expenses		
	(2,948,299)	(1,450,989)
Net profit	11,062,652	9,150,147
Reconciliation of net profit		
Members distributions	11,062,652	9,150,147

The above statement of financial performance is to be read in conjunction with the accompanying notes.

Statement of financial position

for the year ended 30 June 2003

	2003 \$	2002 \$
Assets		
Cash assets	15,084,101	12,599,465
Investments – mortgage loans	128,928,036	100,089,462
Investments – managed investment scheme	1,500,000	-
Total assets	145,512,137	112,688,927
Liabilities		
Payables	1,287,037	1,254,827
Total liabilities	1,287,037	1,254,827
Net assets	144,225,100	111,434,100
Investors' funds		
Settlement sum	100	100
Member's funds	144,255,000	111,434,000
Total investors' funds	144,255,100	111,434,100

The above statement of financial performance is to be read in conjunction with the accompanying notes.

Building Relationship

EQUITITRUST

Merchant Bank

Manager

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